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September 17, 1997

Via Hand Delivery

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RECEIVED
SEP 17 1997
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Notice of Ex Parte Presentation Federal-
State Joint Board on Universal Service,
CC Docket No. 96-45

Dear Mr. Caton:

Pursuant to Section 1.1206 of the Commission's Rules, this is to give notice that a meeting took place on September 16, 1997, between Irene Flannery and Richard Smith of the Commission's Common Carrier Bureau; Jack Ries, Marketing Manager of the Telecommunications Division, Minnesota State Department of Administration; James W. Broadwell, Director of State Telecommunications Services, State of North Carolina; Jack Sasser, Network Manager, State of North Carolina; Lori Fuller, North Carolina Department of Justice; Glenn Dunlap, representing North Carolina Telecommunications Services; and Jack McFadden on behalf of the National Association of State Telecommunications Directors. Also in attendance were Benjamin J. Griffin and Robert L. Galbreath of the law firm of Reed Smith Shaw & McClay LLP.

The purpose of the meeting was to present to the Commission information concerning the present structure of telecommunications networks used by many states to serve their schools and libraries, and to assess the compatibility of such networks with the Commission's proposed universal service rule structure. The presentation included written materials, copies of which are submitted herewith for the record.

Should there be any questions regarding this matter, please contact the undersigned.

Very truly yours,

REED SMITH SHAW & McCLAY LLP


Robert L. Galbreath

RLG:vdd
Attachment

cc: Irene Flannery, Esq., Common Carrier Bureau
Richard Smith, Esq., Common Carrier Bureau

No. of Copies rec'd *241*
US-AR006



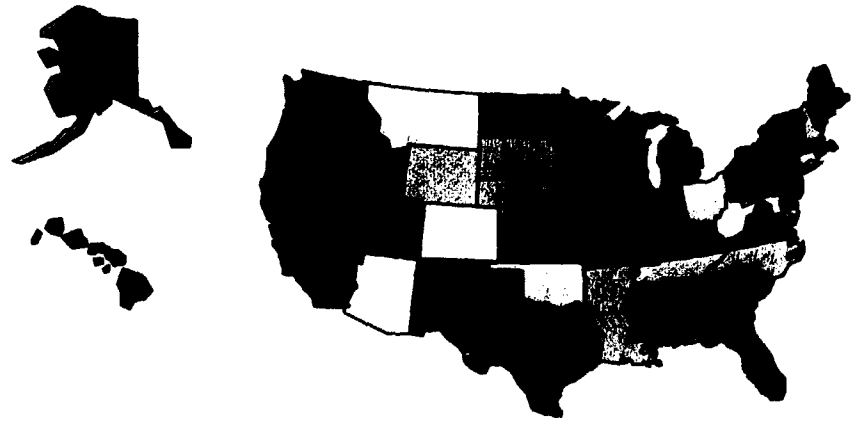
UNIVERSAL SERVICES FUND EDUCATION RATE
IMPLEMENTATION CONCERNS & UNDERSTANDINGS

Presentation To:
Federal Communications Commission
September 16, 1997

James W. Broadwell, Director
State Telecommunications Services
State of North Carolina



Background

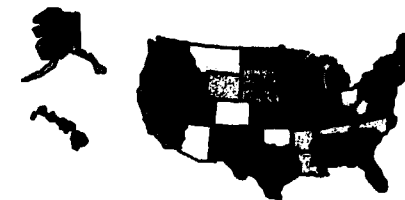


States' General Assemblies

Most states through their respective General assembly have established a telecommunications organization for oversight and operation of the State government telecommunications needs. These statutes were created with the expectation of saving state revenue through the procurement and operation of telecommunications facilities.



Background



State Networks - A General Understanding of All States

- States integrate multiple components into useable services such as internet access and video services.
- Networks have large capacity with both flat rate and usage based facilities. They are configured in multiple arrangements.
 - ✓ Backbone facilities are often shared to carry traffic from sources of voice, data and video.
 - ✓ Backbone circuits, access circuits, terminating circuits, switching and routing equipment are provided in a combination of contractual services and state owned elements.
 - ✓ Users pay their proportional share to provide these services.
- Networks are dependent on high volume usage for efficiency.
 - ✓ Increased usage lowers cost per unit of service (\$/min, \$/port, etc).
 - ✓ Decreased usage increases cost per unit of service.
- States operate within state purchasing regulations that require competitive procurement practices and are open to all carriers.
- Based on state statutes, each states' telecommunications organizations serves multiple end-user organizations, which may include state agencies statewide, local and county governments, public health care agencies, public schools and libraries. Such service is provide with least cost solutions to meet their needs.
- Implementation varies by state with various degrees of contracted services and purchased hardware.
- NASTD initiatives and recommendations are supported by all states.



State Telecommunications Services



North Carolina Department of Commerce



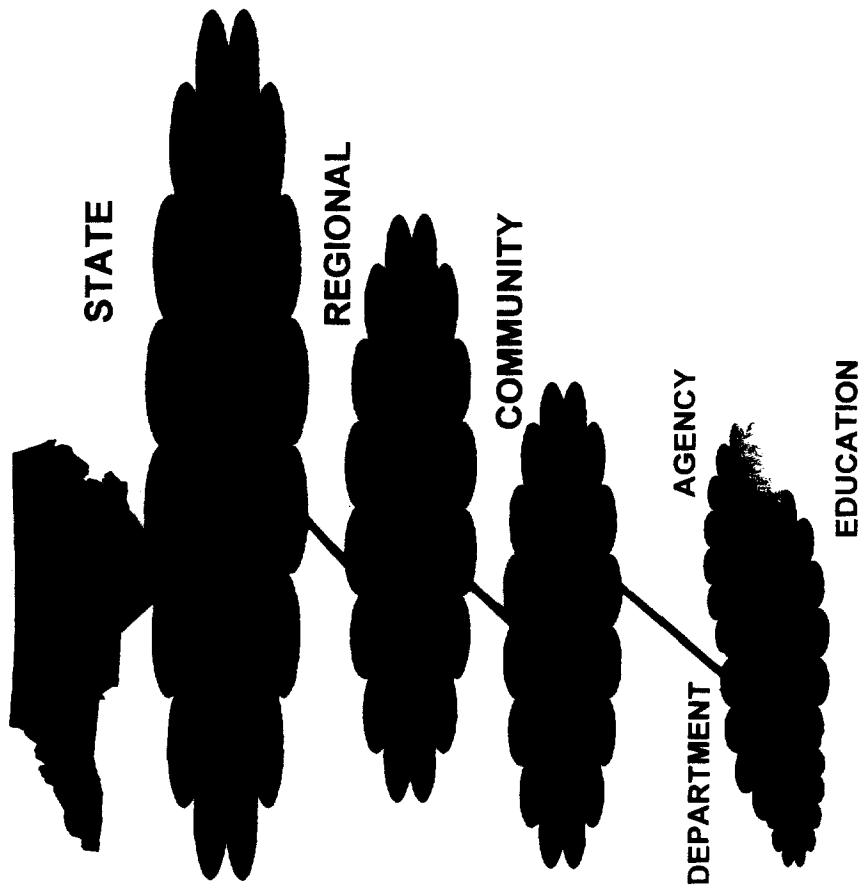
North Carolina's Telecommunication Network



North Carolina Integrated Information Network



NETWORK TOPOLOGY



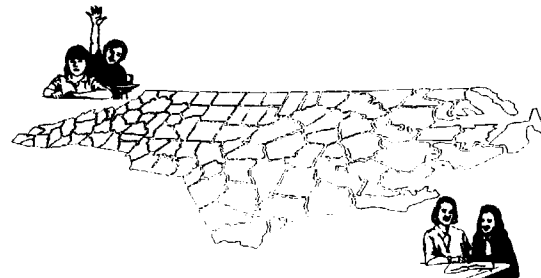
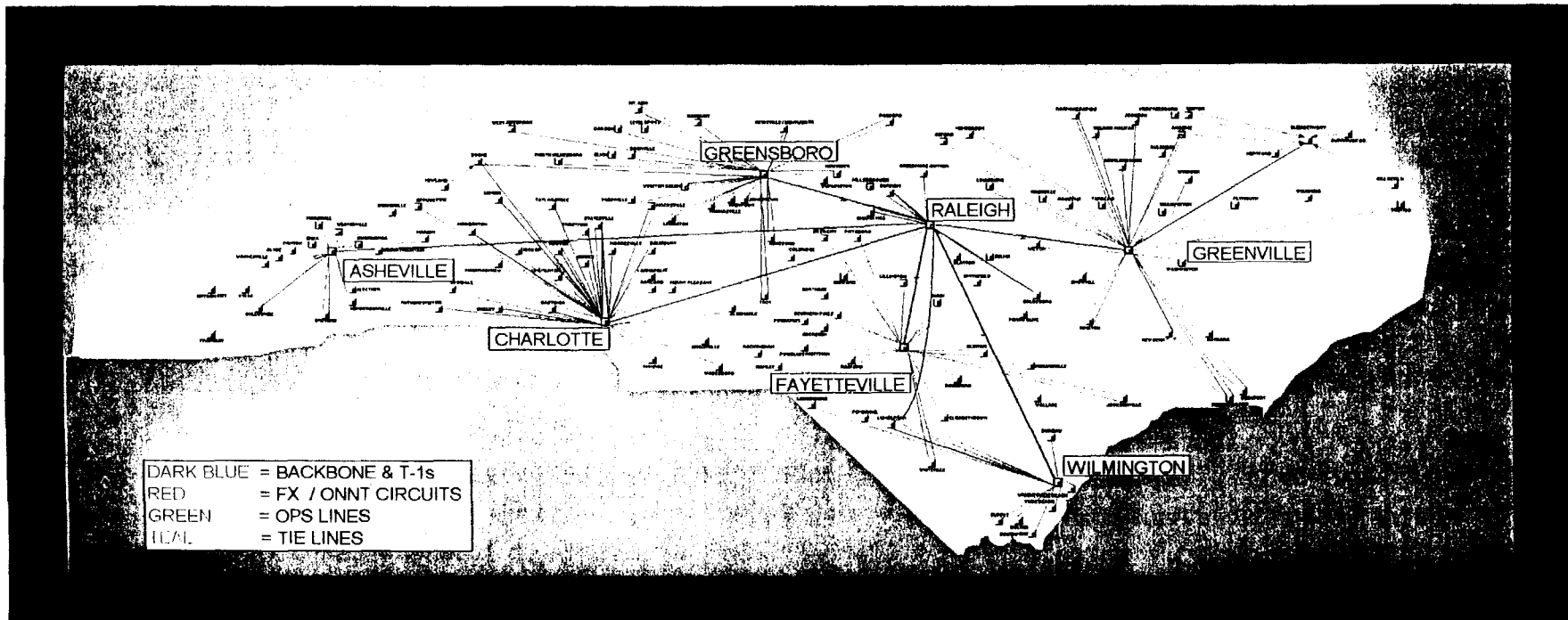
NORTH CAROLINA INTEGRATED INFORMATION NETWORK



Overview



North Carolina's Telecommunication Networks



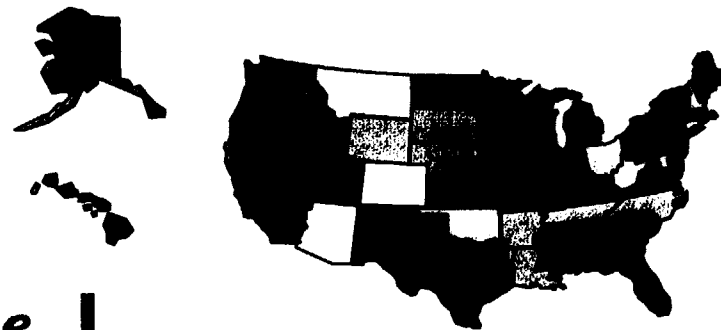


Our Current Understanding

North Carolina's State Telecommunications Services and other states' telecommunications services organizations will provide service to K-12 public schools and libraries to maximum their leverage of larger capacities using existing contracts. Our understanding includes:

- July 10, 1997 FCC order allows contracts, awarded between 11-8-96 to the date a WEB site is available, to be used until 12-31-98.
- The Commission is re-considering a request to allow all current contracts awarded earlier than 11-8-96 to remain in effect.
- The Commission is re-considering a request to allow such contracts to be extended beyond 12-31-98.
- State Telecommunication rates are established with oversight inclusive of overhead that can be used for the pre-discount rate. These rates are also subject to federal scrutiny under OMB Circular A-87.
- The Universal Service Fund Administrator will determine arrangements for each state and work with each state to provide an affordable cash flow process.

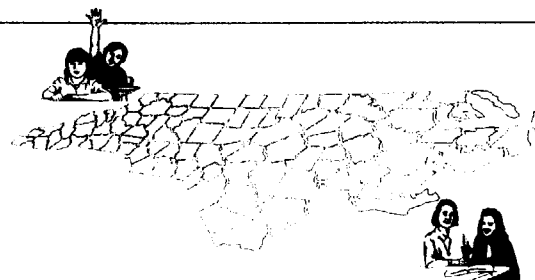




Consequences of Not Providing Service

Without serving these entities, all states would experience a change in their normal traffic loads and would precipitate:

- The creation of new networks just for schools, libraries and rural health care; (That is, if eligible entities' participation in a state network consortium is invalidated, either due to the state's need to enter into multi-year contracts for networking services after 11/8/96 as a result of the normal procurement cycle, or as a result of off-tariff contract elements in the state network, eligible entities will then form their own network.)
- A higher rate for services to all other state agencies since rates are usage and efficiency dependent;
- An increase in cost to schools that would otherwise be provided through STS;
- An overall increase in cost to the taxpayer;
- A windfall increase in profit to carriers by splitting up networks since the State would have less purchasing power.

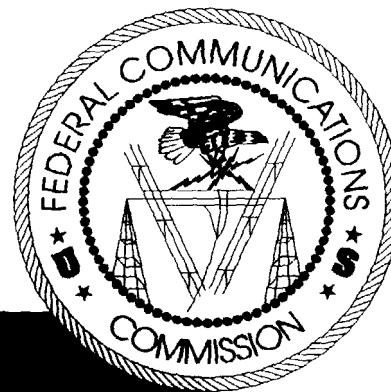


Implementation Assumptions

- STS is in the category of service provider not requiring any designation by the State PUC. STS can provide connectivity and participate in the Universal Service Fund reimbursement from the Administrator.
- K-12 clients will be given the mandated discount from the STS rate inclusive of overhead (designated as the pre-discount rate). STS would apply for the remainder of this rate cost (100% minus the client discount) from the Universal Service Fund Administrator.
- Current methodology for the service rate charges will be acceptable by the School and Library Corporation and Rural Health Care Corporation under the Universal Service Administration Corporation which includes an independent rate governing body with audited processes.



Structure



FCC

NECA

National Exchange Carriers Association

USAC

Universal Service Administration Company

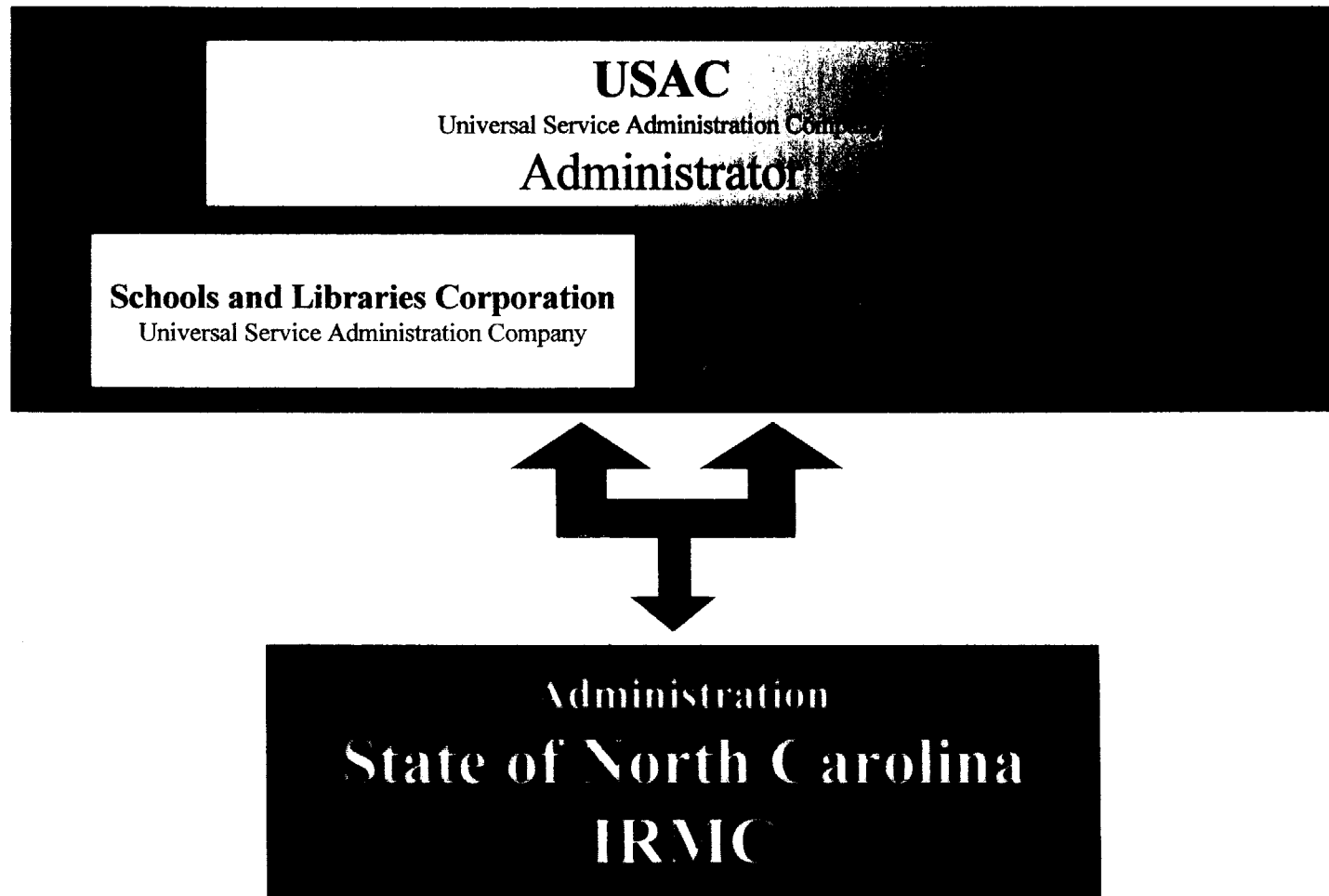
Administrator

Schools and Libraries Corporation

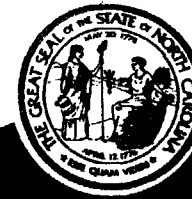
Universal Service Administration Company



Structure



Structure



North Carolina Department of Commerce

Administration

IRMC



Service Provider

State Telecommunications Services

Schools and Libraries

Rural Health Care

